



RECOMMENDATIONS

Recommendation 1: The Board and management should enhance the decision-making process by (i) developing an inclusive Fund-wide institutional strategy for Fund engagement in newer policy areas; and (ii) taking a more holistic approach when endorsing individual strategies for newer policy areas by better linking decisions related to scope, required resources, and risk management implications. Suggestions include the following:

- (i) A Fund-wide institutional strategy for engagement in newer policy areas that involves all Fund members in an inclusive manner would allow the Fund to take a step back and reflect on the Fund’s role in the global economy. It would also enhance the comprehensiveness, coherence, and clarity of the Fund’s engagement in both traditional core and newer policy areas. Such a strategy should be periodically reviewed, and should include the following elements:
 - ▶ An assessment of the alternative options in terms of which policy areas to engage in and which not, and the desired level of engagement, which can range from simply signaling a policy area’s macrocriticality while leaving more in-depth engagement to other institutions, to engagement on par with the traditional core policies in terms of policy advice, depth, and frequency of engagement.
 - ▶ An assessment of how the abovementioned choices related to Fund engagement would affect the budget, overall size, and risk profile of the Fund, including their impact on staff in terms of work pressures and overall well-being, as well as how this positions the Fund in the international financial system.
 - ▶ An assessment of the desired balance between retaining flexibility and ensuring consistency when implementing surveillance in newer policy areas, which can be developed through principles of engagement that answer the above questions, as well as the extent to which the Fund should adopt a narrow or broad interpretation of “similar circumstances” when assessing evenhandedness.
- (ii) Endorsing individual strategies for newer policy areas in a more holistic way would enhance their transparency and coherence. Such a holistic approach can still be iterative, but the formal endorsement and publication of a strategy or policy for Fund engagement in a newer policy area should include the following elements:

- ▶ An assessment of the perimeter, depth, frequency, and required Fund expertise of the newer policy area.
- ▶ An assessment of the adequacy of the allocated resources, as well as where they will come from, to avoid unintentionally impacting other Fund activities or workstreams and placing unsustainable demands on staff.
- ▶ A comprehensive risk assessment covering the risks of engaging, as well as not engaging, in a newer policy area across all six Level-1 risks of the ERM framework.
- ▶ How the Fund intends to engage with other partners on the newer policy area and, ultimately, its consistency with the principles of engagement with partners (see Recommendation 4).

Recommendation 2: Management and staff should address operational challenges by producing budget data in a manner that allows tracking by policy area across all Fund activities and operations. The Board should consider what policy areas need to be tracked and the level of granularity required, balancing the need for more detailed data with the costs and complexities involved in providing such data. Suggestions include the following:

- ▶ Collecting, tracking, and reporting budget data in a multidimensional way, not just by output area, country grouping, and department, but also by policy area, across all Fund activities and operations, would allow the Fund to estimate the costs and resource needs more precisely. This would help the Board better understand how resources are allocated and enable it to recognize the impacts of trade-offs on new activities/workstreams as well as existing ones, so it can set priorities accordingly. However, collecting more comprehensive, granular budget data for all policy areas across all Fund activities may have significant resource implications, both in terms of dollars and staff time.

It would require adapting the current time registration system or investing in a more modern, multidimensional system. It would also require additional inputs at the individual staff level to register what policy areas staff are working on in a regular and systematic way. Transitioning from the current system to a more comprehensive one would also involve process planning, change management, and managing risks related to compliance and data quality. To better balance these costs, the Board should review what policy areas need to be tracked and the level of granularity required.

Recommendation 3: Management and staff should update the 2022 Guidance Note for Surveillance Under Article IV Consultations in order to enhance the clarity of key elements regarding Fund surveillance in newer policy areas.

An updated Guidance Note should include more granular guidance on the filters for engagement on structural issues. This update would enhance the clarity and consistency of engagement in newer policy areas, including through better internal and external communications regarding the key elements of Fund surveillance in newer policy areas. The updated Guidance Note could include greater detail to answer the following questions related to Fund engagement in newer policy areas:

- ▶ *On the perimeter:* (i) How should staff determine if a structural issue is macrocritical; (ii) to what extent is coverage of macrocritical structural issues required; and (iii) what time horizon(s) should staff consider when making macrocriticality assessments?
- ▶ *On the provision of policy advice:* (i) How should staff determine if the Fund has expertise on a particular structural issue; (ii) to what extent should staff provide policy advice when Fund expertise exists but supply is lacking; and (iii) should the IMF expertise filter be applied at all?

- ▶ *On the depth:* (i) How should staff determine the relevance, severity, and urgency of a macrocritical structural issue, both independently and relative to others; and (ii) what are the different depths of engagement?
- ▶ *On the frequency:* How should staff determine when and how often to engage on a macrocritical structural issue?
- ▶ *On the uniformity of treatment:* (i) How should staff determine which similar circumstances are relevant when assessing evenhandedness; and (ii) should the Fund adopt an output-based approach to evenhandedness?

Recommendation 4: The IMF should adopt an Executive Board-approved high-level Statement of Principles for Engagement with Partners to establish a coherent best practice framework.

An Executive Board-approved high-level Statement of Principles would provide the Fund with an institutional anchor for engagement with partners. The principles approach would guide the motivating rationale, objectives, policies, monitoring, and evaluation criteria and modalities. At the same time, it should provide flexibility on the type of framework arrangement with a respective partner, be it formal, informal, or ad hoc. The establishment of principles

would help mitigate risks related to time lags arising from the Fund’s current model of “learning by doing” pilot projects, which it relies upon before adopting strategies in newer areas, and which inform decision making in relation to the expected engagement with partners when approving new policy areas.

BUDGETARY IMPLICATIONS

Recognizing the budgetary constraints throughout the Fund’s activities, the recommendations aim to enhance and align with existing institutional efforts, including the pilot of a new strategic cycle, updates to guidance notes, and the continuous reinforcement of operational systems. Although these recommendations come with their own financial considerations, they are expected to have generally modest impacts on the overall budget. However, certain aspects, especially those related to strengthening the granularity of data, are likely to necessitate higher initial investments, depending on the requirements for information technology and data management system enhancements. The proposal for and implementation of a comprehensive, Fund-wide strategy for engaging in new policy areas is likely to incur some upfront costs. Nonetheless, the third and fourth recommendations are anticipated to bear minimal direct financial implications, concentrating on refining guidance for greater clarity and establishing principles for partnerships, respectively.